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SUBJECT: FINANCIAL CRISIS HITS SHANGHAI EXPATS HARD

REF: SHANGHAI 259

11. (SBU) Summary: The effects of the global financial crisis are leading many in Shanghai's expatriate community to return home ahead of schedule just as Shanghai ramps up for the 2010 World Expo. Shanghai has approximately 150,000 expats who work for many of its 40,000 foreign-invested projects. Multinational companies who are seeking to cut costs are sending expats home or asking them to accept reduced benefits packages. End summary.

12. (SBU) Often called the "New York of China," Shanghai prides itself on being an international center for trade, finance, logistics and shipping, and has ambitious plans to expand those international roles. According to Shanghai Municipal officials, there are more than 150,000 expatriates living and working in Shanghai, making it the most "foreign" of cities in China. Of these, approximately 22,000 are U.S. citizens. Shanghai has over 5,500 U.S.-invested projects, including such large companies as General Motors (in a highly profitable joint venture), Intel, GE, Kodak, and UPS. U.S.-invested companies in Shanghai account for approximately one-eighth of the total of 40,000 foreign-invested projects in Shanghai. There are signs that the global financial crisis, and the concomitant slowdown in China's economy and trade, has impacted the expat community here. Anecdotal evidence and recent, non-scientific surveys of the expatriate community in Shanghai indicate that Shanghai's foreign population is decreasing and changing just as Shanghai ramps up for the 2010 World Expo. That six-month event (May 1 -- October 31, 2010) is expected to bring as many as sixty million domestic visitors and ten million foreign visitors to Shanghai.

Shanghai's Economy from Go-Go to Slow-Slow

13. (SBU) According to official statistics, in 1Q 2009, Shanghai's GDP grew only 3.1 percent, down from the 7.2 percent growth in the 4th quarter of 2008. Shanghai's economic slowdown is largely attributed to the city's traditional dependence on exports and comes after 16 years of year-on-year double-digit growth that ended in 2007; 2008 GDP growth still exceeded 9 percent. According to a Human Capital Group's recent survey of more than 300 human resource directors and general managers at foreign-invested firms in Shanghai, 78 percent reported that their company and workforce were being significantly affected by the global financial crisis.

On the Down Side of the Sine Curve

14. (SBU) An American lawyer who has lived and worked in Shanghai for 24 years describes the recent outflow of expatriates as the worst she has ever seen. It is not the first expat exodus she has seen, however. She described the size of Shanghai's expatriate community as being analogous to a sine curve with ups and downs over time.

15. (SBU) Multinational companies send expatriates to Shanghai to provide management and technical expertise not available here in China, she observed. These expatriates come on expensive "expat" packages that often include such perquisites as financial bonuses, rent in appropriate housing (usually at least USD 6,000 per month in gated "foreigner" compounds), a car and driver (about USD 13,000 per year), tuition for kids (USD 22,000 per year), annual vacation tickets and trips back home, along with the usual relocation costs. After a few years, management located outside of China starts to question the value of these expensive expatriates and downsize their complement. Then, over time the companies realize that the services and skills of the locally-engaged staff do not live up to expectation and send expats back to "fix up the problems."

16. (SBU) As another contact with 15 years in Shanghai's manufacturing sector said, "The problem is developing a mediocre local supplier to an acceptable global supplier. Amongst local hires, there is a basic lack of understanding of the work ethics and business environment outside of China. As long as Chinese don't get this, companies will need expats to do the work. Those companies that are sending people home now will be bringing them back in a couple of years."

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Expats, Half-pats, and Returning Chinese

17. (SBU) In addition to the expatriates working for large multinational companies and recruited from abroad (and who generally are recipients of the generous expat package listed above), Shanghai companies have also attracted a large population of expatriate workers who are recruited locally. These are known here in Shanghai as "half-pats" since their salary and benefits package are often very adequate, but much lower than their externally-recruited colleagues. These expats often live more on the local economy in apartments designed for Shanghai's upper middle class. These "half-pats" are often younger and less experienced than those on expat packages and as a result may be single or newly married and not yet have children they want to enroll in one of Shanghai's large assortment of very expensive international schools. "Half-pats" often include returning Chinese students (often with advanced degrees) who come back to China and are willing to work for multinationals on local wages.

18. (SBU) Several expats who are leaving Shanghai this summer told Econoff that their companies, attempting to cut costs, offered them the option to stay in Shanghai on a "local package." One such individual, employed by Intel, said she was offered a reduced-benefit package that included her housing allowance and children's schooling, but did not include a driver or relocation costs back to the United States. She opted to take her family back to the United States.

19. (SBU) Several Chinese-American or Chinese who had studied abroad and returned to Shanghai told Econoff that the departure of many on expat packages was a great opportunity for them to get jobs here in Shanghai. Working for multinationals -- even on a local package -- comes with the cachet and higher salary they feel they deserve after studying overseas.

"The Koreans Are Gone"

110. (SBU) The Shanghainese Korean community was especially

hard-hit by the onset of the global financial crisis in late 2008 as the Korean Won fell steeply against the U.S. Dollar. Press reports indicated in March 2009 that more than 10,000 Koreans had left Shanghai in the preceding several months. A teacher at an international school that had many Korean students told Econoff that "the Koreans are all gone." An administrator at another international school said that 38 of 41 Korean families withdrew their children from school and abruptly left Shanghai over the 2008-2009 winter school break.

Impact on International Schools

¶11. (SBU) Econoff spoke with administrators or admissions officers at twelve of Shanghai's international schools as a way to unscientifically measure changes in the expat community. All schools reported that they were seeing a higher-than-normal departure rate this summer, as measured by those students that had paid re-enrollment fees. Most first-tier schools reported that they expected their Fall 2009 enrollment to either decrease by five percent or remain flat. Second-tier schools reported that their enrollments were falling, though most were not willing to reveal by how much. Several first-tier schools said that they were making up for departures through transfers of students from the second-tier schools. Most schools reported that they had been experiencing double-digit year-on-year growth over the past five years, with one school having been growing at 15 percent per year. Maintaining a flat enrollment therefore actually was a decline, said one admissions officer.

¶12. (SBU) Another school principal with more than 10 years in Shanghai observed that that "during the Asian financial crisis in 1997 it took 15-18 months before schools in Shanghai started noting downward trends in enrollment as companies' losses mounted." Given the expense in moving expats, companies appear likely to be willing to weather short-run losses and wait to see if economy picks back up, she added. The rapid departure of the Korean students from her school, she said, came as a big surprise, however she expects that the expat community will

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stabilize over the summer. Despite this, her school had raised re-enrollment fees to USD 5,000 in order to encourage only those who were truly coming back to Shanghai after the summer break to sign up for class in Fall 2009 so that the school could plan appropriately.

Some Staying and Betting on the Future

¶13. (SBU) Not all ex-pats leave China, however, when they lose their jobs or benefits packages with multinational firms. Some are betting on China's future and are choosing to remain in Shanghai at their own expense, hopeful of being well-positioned when the uptick comes. After being released by her company, one ex-pat manager moved her family into local housing and enrolled in full-time Chinese language courses while her husband found work as a teacher to maintain some income. The non-profit team that is organizing the USA Pavilion for the World Expo has actually benefitted from the slowdown because it has enabled two experienced American executives to devote themselves full-time to the effort. One of them had been sent to China with his family by a major American advertising company in early 2009, but then was told that his China position was being abolished. He had the option to return to the United States to take a domestic position, but did not want to move his school-age children twice in the same year.

Comment

¶14. (SBU) The Shanghai Municipal Government appears sensitized to the departure of many of its expatriate residents as it ramps up for the 2010 World Expo and it recently convoked Shanghai Consular Corps representatives for an "unprecedented" meeting on improving Shanghai's service environment for foreigners

(reftel). Word on the street, falling rental prices in expatriate-only gated communities and anecdotal evidence suggests that the global financial crisis, China's economic slowdown, and multinational companies' needs to cut cost to maintain competitiveness are impacting Shanghai's expatriate community. For expats remaining in Shanghai, however, the news is not all bad -- rents are falling significantly (for example, the Consulate has renegotiated its housing leases for an overall savings up to 15 percent) and, as one long term resident observed, it no longer takes him as long to get a table at his favorite watering hole.

CAMP